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15. It is unlikely that Iran's foreign markets for oil will be restored in the near future. There is no prospect of an agreement which would restore AIOC to control of the oil properties or appear to provide it with an export monopoly. Although the efforts of the IBRD show some prospect of restoring the foreign distribution of Iranian oil, the success of these efforts will require notable concessions by either or both sides. The Western oil industry, with AIOC's concurrence, would have to accept the exclusion of British technicians from Iran and the retention of managerial control by the Iranian National Oil Company. The Iranian government, for its part, would have to make substantial concessions on the price issue; the Western firms are reluctant to pay more than the competitive price for Iranian oil and Mossadeq has thus far held out for a higher rate. In the absence of an IBRD agreement, Iran will continue its efforts to sell to any customer. It is unlikely, however, that Iran could sell financially significant amounts of oil to non-Soviet orbit countries without the acquiescence of AIOC and the other major Western distributors. Moreover, as further discussed below, it is unlikely that Iran could obtain significant oil revenues from sales to the Soviet orbit countries.

State Dept. review completed

Review of this document by CIA has determined that

- ☒ CIA has no objection to declass
☐ It contains information of CIA
 interest that must remain

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16. Although Mossadeq will probably continue to seek US aid to enable him to meet his budgetary deficit -- which would make it easier for him to stand firm on his own terms for an oil settlement and would temporarily strengthen his political position -- it is increasingly clear that he opposes the development of closer military and political ties with the West. He has vacillated on giving formal approval to the continuance of the US military missions and the military aid program. He also has strong objections to becoming subject to US economic advice. Although he was recently prevailed upon to sign a Point IV agreement, he has thus far refused to provide the assurances that would enable Iran to obtain military assistance under the Mutual Security Program. If he fails to receive US aid to relieve his growing budgetary difficulties, he may become even less disposed to cooperate with the US. He might terminate the contracts of the US military missions and eventually curtail US technical and economic assistance activities in Iran. However, it is also possible that internal pressures may force him to go further in giving commitments to the US than he would personally favor. Meanwhile, he will almost certainly make greater efforts to expand Iran's economic relations with other countries, including the Soviet bloc, providing they do not appear to involve foreign interference in Iran's domestic affairs.

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17. In this connection, Mossadeq almost certainly will press forward with negotiations now under way with Poland, Czechoslovakia and Hungary for the sale of some two million tons of Iranian oil, and will probably also seek oil deals with other members of the Soviet bloc or with the USSR itself. However, it is unlikely that the Soviet bloc could provide enough tankers to move financially significant quantities of oil from Iran, and thus the sale of oil to the Soviet bloc would probably not provide Mossadeq with a lasting solution of his financial problems.

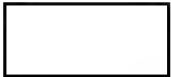
18. The USSR might attempt to gain political advantages in Iran by providing Mossadeq with limited advances against future oil deliveries or by satisfying Iran's dollar and gold claims. Such measures would have only a temporary effect on the financial position of the Mossadeq government. We do not believe that the USSR would be willing to give Mossadeq sufficient assistance to solve Iran's financial problems except on terms which he would be unable to accept.

19. The chief impact of the cessation of oil production has up to now been on the fiscal position of the government. The monthly budget deficit has increased ^{to} ~~by~~ about four times ~~over~~ the rate of the first half of 1951. (At the new exchange rate of approximately 60 rials to the dollar the current estimated monthly deficit would be 6.5 million dollars). During the past four

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months this deficit has been financed largely by drawings upon the 40 million dollars of sterling transferred last August from the note cover. Within a month the remainder of this sterling will have been sold to the central bank for local currency. Proceeds from the current bond drive, direct borrowing by the National Iranian Oil Company from the central bank, sale of the 8 million dollars recently acquired from the International Monetary Fund, sales of government stocks of wheat and sugar, and other possible improvisations could enable the government to maintain its current rate of deficit spending through April.

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